

## Overview

When it comes to the war against terrorism, the President has our total support. We are united, determined to win, and unstinting about paying the necessary cost.

But Democrats do not believe that national security and homeland security should come at the expense of Social Security and other national priorities, as both the President's budget and the House Republican resolution propose.

Republicans blame the war or the recession for the disappearance of the budget surplus. But estimates in the President's own budget confirm that it is the flawed economic plan Republicans pushed through Congress early last year that has caused the worst fiscal reversal in American history — the loss of \$5 trillion of a \$5.6 trillion surplus. But even after that reversal, and just six years before the beginning of the retirement of the baby-boom generation, the most one can say for both Republican budgets is, "steady as she goes." The Republicans have no plan to bring the budget to recovery even a decade after the economy recovers. Worse still, this year's Republican budgets dig the fiscal hole even deeper.

Both Republican budgets are fiscally damaging, and leave the nation unprepared for the retirement of the baby boom. But the House Republican budget is, if anything, more troubling. Where the President's budget is open about its long-term goal of additional excessive tax cuts, the resolution is silent — at the same time as the Republican Speaker announces his plans to advance such legislation. And the resolution papers over the President's insufficient funding of domestic priorities with modest additions to proposed appropriations. This raises the prospect of the worst of all fiscal worlds, with more tax cuts **and** more spending. But in the end, between the President's budget and the House Republican resolution, the risk is the same.

**The Republican resolution dissipates most of the Social Security surplus, and decimates all of the Medicare surplus, over at least the next five years.**

OMB estimates the Social Security surplus at \$1.217 trillion over the current fiscal year plus the following five-year budget window (2002 through 2007). The Republican resolution calls for cumulative non-Social Security deficits of \$1.052 trillion, meaning that more than 86 percent of the Social Security surplus will be spent.

It goes without saying that over this period the entire Medicare surplus is gone.

The President and every House Republican leader promised last year that **every single** dollar of the Social Security and Medicare surpluses would be saved for Social Security and Medicare. With this Republican budget, virtually **no** dollar of the Social Security and Medicare surpluses will be saved for Social Security or Medicare.

**The Republican resolution shows only five years of budget figures instead of ten,** to cloak the much larger amount of the Social Security and Medicare surpluses that Republicans are really spending.

With the President's budget invading Social Security as far as the eye can see, and spending nearly \$2 trillion of its surplus, House Republicans apparently did not want to reveal the ultimate consequences of their choices.

The Republican resolution might appear to improve on the President's budget, with a five-year cumulative surplus about \$0.07 trillion higher, largely because of smaller tax cuts. But that appearance is misleading, because the resolution is silent on policies and numbers for the following five years. Worse still, the resolution is a sham even for the first five years. Republican Speaker Hastert, the day after the Committee markup of the resolution, announced his plans to bring to the floor in April larger tax cuts than the resolution would acknowledge. These tax cuts include the extension of last year's massive enacted bill, which would cost about \$400 billion over the customary ten-year budget window.

**The Republican resolution uses OMB rather than CBO estimates,** in another reversal of sensible custom that further hides the outcomes of the Republicans' proposal.

Instead of relying on the Congress's own non-partisan authority, the Republicans chose to use estimates by the Administration's political appointees.

In 1995, Congressional Republicans shut the government down explicitly because they insisted on the use of CBO estimates.

If CBO rather than OMB should prove correct, virtually the entire Social Security surplus will be gone for the next ten years.

**The Republican resolution omits numerous impending budgetary costs.**

The Administration has stated that it will submit a supplemental appropriations request for defense and homeland security. The individual Alternative Minimum Tax will balloon twenty-fold, impinging on 39 million households — 34 percent of taxpayers — by 2012. Natural disasters will occur, and will demand emergency response by FEMA and other federal agencies. None of these or other certain or likely contingencies are accommodated in the resolution, making its projections highly suspect.

**The Republican resolution pays mere lip service to the cause of prescription drug coverage for seniors.**

The resolution reserves \$350 billion over ten years; but without ten-year numbers for the rest of the budget, this figure is not credible.

Furthermore, the \$350 billion must cover not only prescription drug coverage, but also Medicare provider give-backs and Medicare “modernization,” in one legislative package, or the funding is not available. This requirement is prohibitive. (For example, in both of its budgets and in last year’s *Mid-Session Review*, the Administration called for Medicare “modernization” or “reform,” but never even defined the term — much less proposed legislation.)

Republicans have discussed as much as \$174 billion of ten-year Medicare provider give-backs. At the same time, the resolution’s hopeful OMB assumptions project \$226 billion less in Medicare outlays over the next ten years than does CBO. If CBO’s projections prove correct, there will be only \$34 billion for the prescription drug benefit (and for Medicare provider give-backs, and for “modernization” of Medicare) over five years.

**In their resolution, the Republicans abandon priorities that they themselves have touted, and that all Americans share.**

To try to make their deficits appear smaller, Republicans have assumed non-defense, non-homeland security discretionary spending almost five percent below the level necessary to maintain current levels of services in 2003. For example, the resolution sustains the President’s cut in funding for the bipartisan No Child Left Behind Act, as well as other cuts in education, health care, law enforcement, and environmental protection. If these cuts are not achieved — and many Republicans will oppose them — then the resolution’s bottom line will turn even worse.

After eight consecutive years of improving budgets, culminating in actual debt reduction and surpluses not relying on Social Security or Medicare, how has our budgetary health fallen so low, so fast?

The answer lies much deeper than the unconscionable attacks of September 11, 2001, and the short and shallow recession. The answer does not rest on the continuing war on terrorism, which Democrats fully and wholeheartedly support. The answer lies in last year’s reversal of the principles and common sense of budgeting that created the now lost success of the 1990s.

Three times in the 1990s, Congress enacted measures to bear down on the deficit, beginning with the Budget Summit in 1990, then the Clinton Budget in 1993, and finally the Balanced Budget Act

of 1997. And each year, for eight straight years from 1993 through 2000, we reaped the results. Each year, the bottom line of the budget got better.

The prospects peaked last year when CBO and OMB projected current policies out ten years and saw unified surpluses that totaled \$5.6 trillion.

## **From Fiscal Improvement to Fiscal Reversal**

<b>Fiscal Year</b>	<b>Surplus/Deficit</b>
1992	-\$290.4
1993	-\$255.1
1994	-\$203.3
1995	-\$164.0
1996	-\$107.5
1997	-\$ 22.0
1998	+\$ 69.2
1999	+\$125.5
2000	+\$236.4
2001	+\$127.1
2002	-\$ 46.0

Democrats knew these were blue sky forecasts, and we warned against betting the budget on them. We urged that a third of the on-budget surplus be set aside for Social Security, and until we had settled on a plan for saving Social Security, that it be held in reserve, in case these rosy projections did not pan out.

Democrats proposed tax cuts, but we also proposed more for education, more for prescription drugs under Medicare, and more for debt reduction.

President Bush proposed much larger tax cuts, \$1.7 trillion to start with; these became the driving force in the Republican budget resolution. We pointed out that the impact on the budget, when debt service was included, would come to more than \$2 trillion, out of a non-Social Security, non-Medicare budget surplus of only \$2.7 trillion. We pointed to clouds gathering over the economy, and warned that if CBO were off by just 10 percent, the budget would be back in the red, and back into the Social Security surplus.

Here is what the President said in reply:

Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens.

Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.

President George W. Bush  
Western Michigan University  
March 27, 2001

Democrats thought that both political parties had drawn one bright line in the budget, and made the Social Security surpluses inviolate. In fact, these are the promises made by the President and Congressional Republicans:

None of the Social Security trust funds and Medicare trust funds will be used to fund other spending initiatives or tax relief.

*A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*  
Office of Management and Budget  
February 28, 2001, Page 11

To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.

President George W. Bush  
Address to Joint Session of Congress  
February 27, 2001

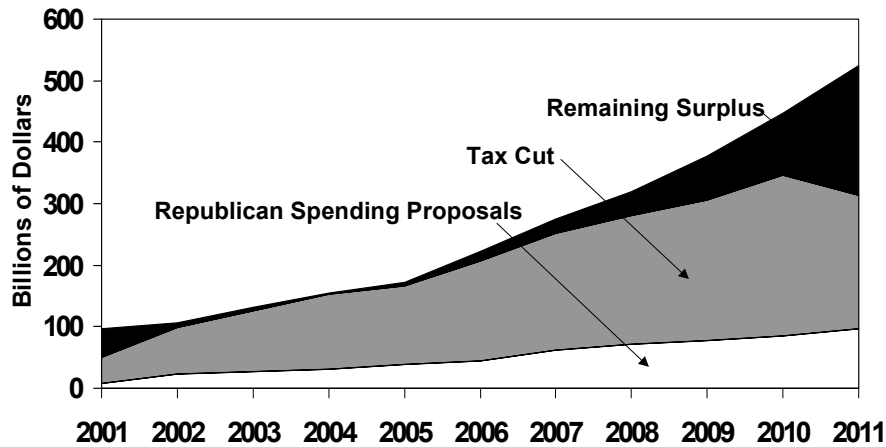
We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.

House Speaker Dennis Hastert  
Quoted in BNA's *Daily Tax Report*  
March 2, 2001

We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that.

House Majority Leader Richard Armey  
BNA's *Daily Tax Report*  
July 11, 2001

## Last Year's Republican Budget Left No Margin for Error



April 2001 Projection of Non-Medicare, Non-Social Security Surplus;  
Tax and Spending Proposals in Last Year's Republican Budget Resolution

The lock-boxes brought to the floor may have been gimmicks, but Democrats thought we had consensus on the core concept. We thought we had agreement that the trust fund surpluses would be saved, not borrowed and spent, to buy back Treasury debt held by the public. That could add more than \$3 trillion to national savings, boost the economy, and in time retire virtually all the Treasury's debt. Then, in 2025, when the Social Security trustees needed to begin liquidating bonds to pay benefits, the Treasury would be in far stronger shape to redeem those obligations.

Before the last budget year was over, we would find this principle honored only in the breach.

Our arguments and admonitions went unheeded last year. The Republicans passed their budget, and left no margin for error as the chart below shows. By August, they had spent virtually the entire non-Social Security, non-Medicare surplus for the next seven years. If anything at all were to go wrong, the nation's entire economic strategy would be ruined.

So, when the forecasting errors began to show up, when the economy began to drop below OMB's projections, the unified surplus went down too, as this table below shows. According to the August estimate, before the influences of the terrorist attack in September, the surplus had gone down by \$2.5 trillion, or 45 percent.

## The 10-Year Unified Budget Surplus

Trillions of Dollars

	2002-2011	2003-2012
April 2001	5.637	N.A.
August 2001	3.113	N.A.
February 2002	0.661	1.002

Source: Office of Management and Budget

This year, if Republicans pass the President's budget, by OMB's accounting, the surplus will be slashed all the way down to \$661 billion, just 12 percent of what was projected last year. Instead of \$5.6 trillion, the unified surplus will be \$0.6 trillion.

And that surplus, as the next table shows, is only what hasn't been spent from the surplus in Social Security. By OMB's own reckoning, if Republicans vote to pass the President's budget this year, they will be voting to spend all \$560 billion of the Medicare surplus and \$1.650 trillion dollars of the Social Security surplus, from 2002 through 2011, creating a \$1.650 trillion on-budget deficit.

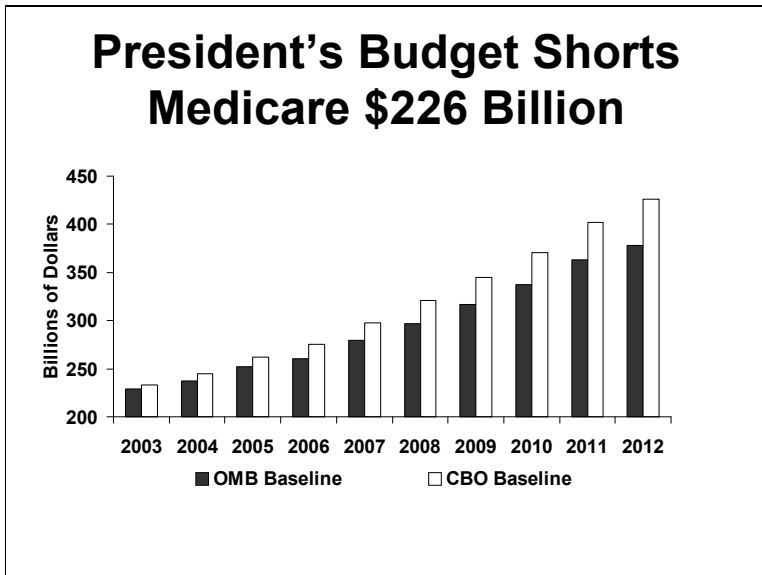
## The 10-Year Non-Social Security Surplus

Trillions of Dollars

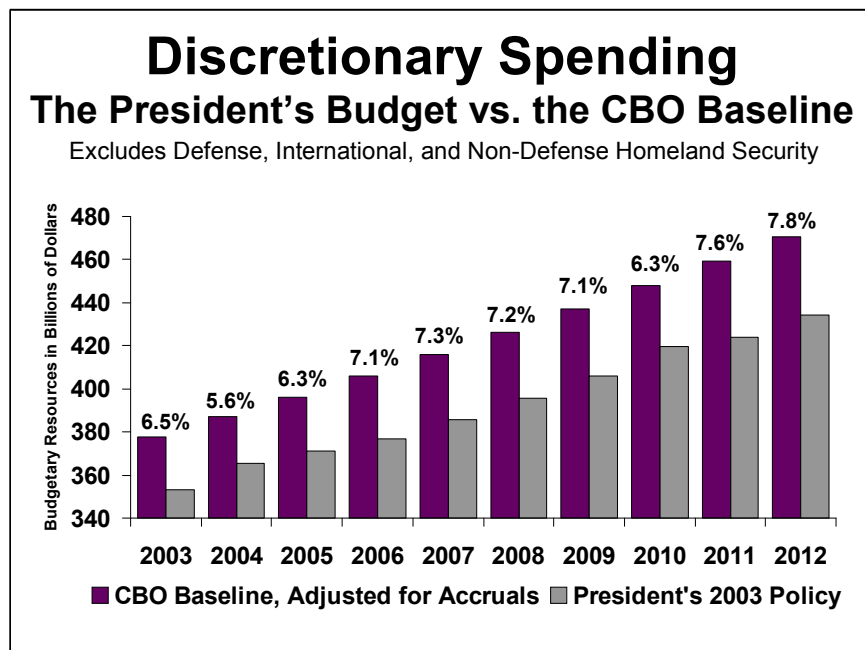
	2002-2011	2003-2012
April 2001	3.046	N.A.
August 2001	0.575	N.A.
February 2002	-1.650	-1.464

Source: Office of Management and Budget

That dire calculation assumes that OMB's estimate of Medicare spending is correct, even though it is \$226 billion less than CBO estimates the cost of Medicare will be. OMB's calculation also assumes that Republicans can hold non-defense discretionary spending for ten years \$215 billion below what CBO estimates is needed to maintain the level of current services. That calculation further assumes that the nation can make it through the next ten years without major adjustments to the individual Alternative Minimum Tax, even though the number of tax filers affected will increase twenty-fold, from fewer than 2 million to 39 million. The President's budget overlooks the AMT altogether. The cost of correcting this problem will be at least \$450 billion. Any of these developments could cause the Republican budget to consume the entire Social Security surplus, in addition to the surplus in Medicare.

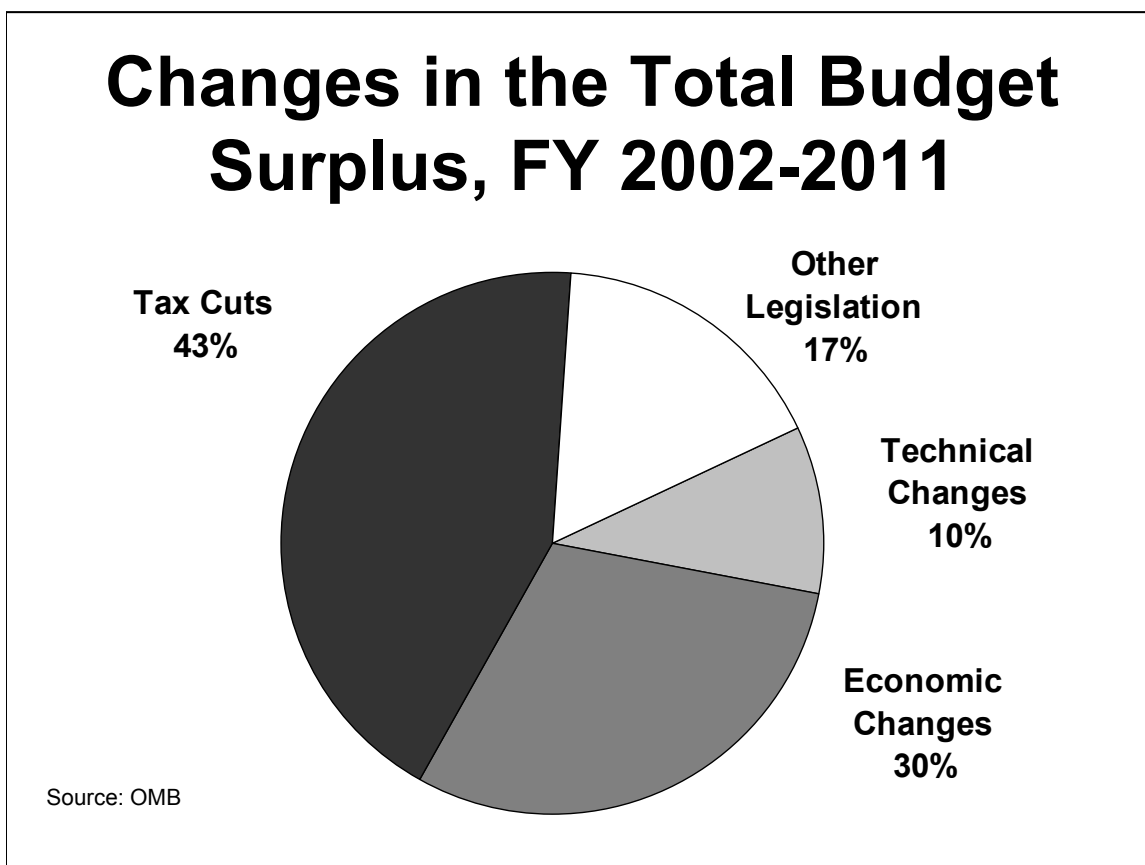


So much for the lock box. And sadly, so much for our plan to save the Social Security surplus. The Republican budget dashes any hope that we can carry it out.





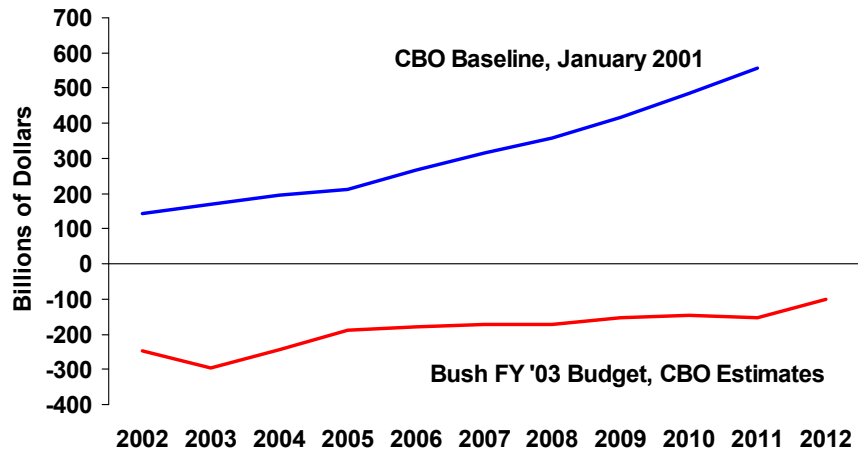
Republicans can seek absolution by blaming the economy and the war, but this next pie chart, using OMB numbers, shows that the largest share of the blame (43 percent), stems from the tax cuts they enacted.



Last year, the budget, excluding Social Security, was totally in the black. Every year for ten years, CBO projected an on-budget surplus, as the following chart shows. The two Republican budgets, this year and last, cause that bottom line to do an about-face. Now, CBO says that every year for ten years, there will be an on-budget deficit.

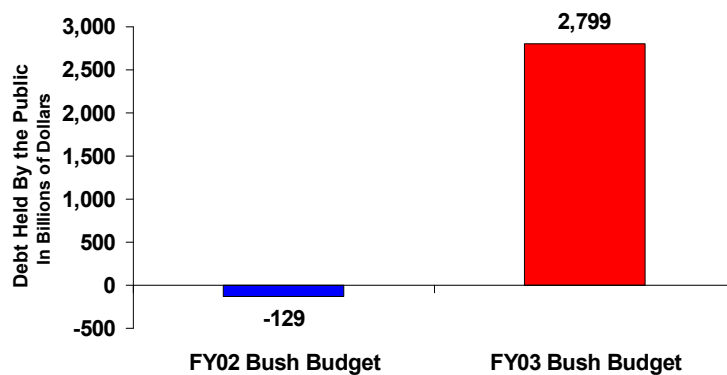
As of last year, according to CBO, all the Treasury debt held by the public could be paid, or payment provided for, by 2008. But under today's Republican budget, between 2001 and 2004, Treasury debt held by the public actually goes up. And by 2008, when the baby boomers start to retire, the government will owe more debt to the public (\$3.479 trillion) than it owes today. (CBO Analysis of President's Budget, Page 18, Table 2.)

## Non-Social Security Surplus



So much for paying down the public debt.

## From Debt-Free to \$2.8 Trillion in Debt in 2011



Source: OMB

Facing such a reversal, one would hope that Republicans would be scrambling for solutions. But rather than face the problem, they avoid it. For the first time in years, rather than adopting the baseline that is consistent with the Budget Act and with past practice, Republicans pick the projections that favor Republican policies most: the very same OMB estimates, derived by political appointees, that Congressional Republicans protested by shutting down the government just seven short years ago.

For the first time in years, Republicans also offer only a five-year budget instead of a ten-year budget. Presumably, their budget yields no consequences that they want to acknowledge in the second five years, and so they choose not to show those years at all. Republicans propose new programs, like drug coverage under Medicare, but because they present only a five-year budget, we have no way of telling if those initiatives are realistically funded. By not running their budget past 2007, Republicans avoid deciding whether the tax cut sunset in 2010 is to be repealed in their budget resolution. But the very day after the markup of the resolution, just after Republicans had told us that their proposal was silent on extending the tax cuts, their Speaker was announcing a new bill to do just that. This choice has a big impact on revenues, almost \$400 billion. Without knowing out-year revenues, the Congress is at a loss to know if near-term tax cuts—extenders, for example—can be accommodated in this budget.

This budget does not recover in five years. We are left to infer what happens in ten years. Either Republicans have no ten-year plan of recovery, which is bad, or they have a plan but it will not stand scrutiny, which is worse. In any event, there are no targets, no objectives, and no strategies that we can find in this budget. It takes the track all the President's witnesses took at Budget Committee hearings this year, which is to admit that there is no work-out strategy, except a hope for more economic growth than the forecast already assumes.

This is not the path that led to eight straight years of better bottom lines. And this is not the path that leads to debt reduction and Social Security solvency and the furtherance of priorities that Democrats hold high, like education. Republicans went the wrong way at the fork last year. Before this year is out, we hope in some way to get the budget back on path. But this resolution takes us in the opposite direction.

**House Republican Budget as Presented Using OMB Estimates  
and Scored Using CBO Estimates  
Billions of Dollars**

**House Republican Budget as Presented**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2003-2007</u>
Total Outlays	2033.2	2122.8	2192.4	2289.1	2382.7	2479.2	11466.2
Total Revenues	1967.5	2077.2	2200.1	2356.2	2471.6	2592.5	11697.6
Unified Surplus/Deficit	-65.7	-45.6	7.7	67.1	88.9	113.3	231.5
On-Budget Deficits	-221.3	-224.3	-187.0	-149.8	-139.2	-130.2	-830.6

**House Republican Budget Scored Using CBO Estimates**

Total Outlays	2013.8	2126.8	2193.2	2295.8	2399.2	2498.2	11513.3
Total Revenues	1963.3	2042.1	2174.8	2331.9	2457.8	2580.1	11586.6
Unified Surplus/Deficit	-50.5	-84.8	-18.4	36.1	58.6	81.9	73.4
On-Budget Deficits	-207.9	-260.6	-212.6	-174.9	-166.9	-158.7	-973.8

**Difference (As Presented Less CBO Estimate Version)**

Total Outlays	19.4	-4.0	-0.8	-6.7	-16.6	-19.0	-47.1
Total Revenues	4.2	35.2	25.3	24.3	13.8	12.4	111.0
Unified Surplus/Deficit	-15.2	39.2	26.1	31.0	30.4	31.4	158.1
On-Budget Deficits	-13.4	36.3	25.6	25.0	27.8	28.5	143.2

**House Republican Budget Resolution  
Compared With President's Budget  
Billions of Dollars**

**House Republican Budget (As Presented, Using OMB Estimates)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unified Surplus	-46	8	67	89	113	?	?	?	?	?
On-Budget Surplus	-224	-187	-150	-139	-130	?	?	?	?	?

**President's Budget**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unified Surplus	-80	-14	61	86	104	113	142	181	178	231
On-Budget Surplus	-259	-208	-156	-142	-139	-143	-124	-99	-119	-75

**Difference (Resolution Minus Budget)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Unified Surplus	34	22	6	3	9	?	?	?	?	?
On-Budget Surplus	35	21	6	3	9	?	?	?	?	?

## **The Republican Budgets Spend the Medicare and Social Security Trust Fund Surpluses**

The Republican House of Representatives has voted five times to create a “lockbox” that would require that the Social Security and Medicare Trust Fund surpluses be saved, and used to pay down the debt held by the public. The benefits of that saving would be twofold: first, to increase the total savings of the nation, therefore strengthening the economy as a whole so that it can pay the cost of these vital programs; and second, to strengthen the Federal budget, by reducing debt and therefore future interest obligations.

Both the House Republican budget resolution and the Administration’s budget violate the Republicans’ own “lockbox” principle for every year through the foreseeable future. This is true even using the rather hopeful Administration baseline that was chosen by the House Republicans to show their resolution in a more favorable light.

<b>Spending Social Security and Medicare Under the OMB Baseline</b>					
	<b>The Administration’s Budget</b>				
Spending of:	2003	2004	2007	2012	2003-2012
Medicare (\$ Billions)	38.8	43.4	54.0	74.6	556.1
Medicare (%)	100.0	100.0	100.0	100.0	100.0
Social Security (\$ Billions)	177.1	195.4	192.7	147.8	1,837.2
Social Security (%)	100.0	100.0	79.4	48.6	74.7
	<b>The House Republican Budget Resolution</b>				
Spending of:	2003	2004	2007	2012	2003-2007
Medicare (\$ Billions)	38.8	43.4	54.0	N.A.	235.1
Medicare (%)	100.0	100.0	100.0	N.A.	100.0
Social Security (\$ Billions)	177.1	195.4	183.4	N.A.	942.8
Social Security (%)	100.0	100.0	75.6	N.A.	89.0

The lockbox bills, for which House Republicans voted unanimously, required that the budget achieve a sufficient unified surplus to cover both the Medicare and the Social Security Trust Fund surpluses. By convention, because Medicare is on-budget while Social Security is off-budget, analysis has assumed that the first dollars of shortfall from this standard would invade the Medicare surplus, and that subsequent dollars invade the Social Security surplus, until the latter is fully dissipated. Still larger shortfalls which exceed the combined Medicare and Social Security surpluses are not counted, though they could be considered retroactive spending of past saved Trust Fund surpluses.

According to that standard, both the Administration’s budget and the House Republican budget resolution exhaust the entire Medicare Trust Fund surplus in every year. (The Administration’s budget was estimated for the customary ten-year window; the Republican resolution was presented

for only five years.) By the end of its ten-year window, the budget still spends nearly half of the Social Security surplus, and cumulatively over the ten-year window, it spends about three fourths. By the end of its five-year window, the Republican resolution spends about three fourths of the Social Security surplus, and cumulatively over those five years, it spends almost 90 percent. Over those five years, the Republican resolution spends only marginally smaller amounts of the Trust Fund surpluses than the Administration's budget. (This is because the Republican resolution fails to acknowledge the Republican agenda for still further tax cuts, as revealed by Speaker Hastert only the day after the resolution passed the House.)

The deficits of the Administration's budget and the House Republican budget resolution would appear even larger under the CBO baseline; if CBO's assumptions prove to be more accurate, the spending of the Medicare and Social Security Trust Fund surpluses will be even greater. CBO has provided its own official reestimate of the Administration's budget; the House Budget Committee Democratic staff has approximated the effect of the House Republican resolution under CBO assumptions (again, only through the five-year budget window).

<b>Spending Social Security and Medicare Under the CBO Baseline</b>					
	The Administration's Budget				
Spending of:	2003	2004	2007	2012	2003-2012
Medicare (\$ Billions)	35.5	38.7	41.7	40.9	402.9
Medicare (%)	100.0	100.0	100.0	100.0	100.0
Social Security (\$ Billions)	176.6	194.3	214.3	140.6	1,942.6
Social Security (%)	100.0	100.0	89.1	44.3	78.2
	The House Republican Budget Resolution				
Spending of:	2003	2004	2007	2012	2003-2007
Medicare (\$ Billions)	35.5	38.7	41.7	N.A.	197.6
Medicare (%)	100.0	100.0	100.0	N.A.	100.0
Social Security (\$ Billions)	176.6	194.3	200.4	N.A.	991.1
Social Security (%)	100.0	100.0	83.3	N.A.	94.6

Economists have argued that the budget should save at least the amount of the Trust Fund surpluses, because even those surpluses are not enough fully to fund these programs future benefits. Instead, the Republicans chose to bet those Trust Fund surpluses on a strategy of large tax cuts. Subsequent development have demonstrated that this strategy was misguided; future developments will reveal the cost of that mistake.